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SUBMISSION

to

Australian Energy Regulator

on

Queensland draft distribution determination 2010-11 to 2014-15

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Queensland draft distribution determination 2010-11 to 2014-15

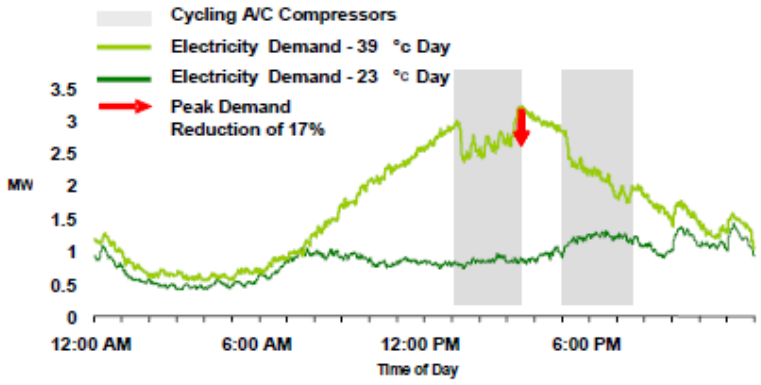
Although Total Environment Centre (TEC) appreciates the opportunity to comment on the draft distribution determination for Queensland, the failure of the AER, Ministerial Council on Energy, and the Australian Energy Market Commission to put in place a regulatory framework that prioritises demand management (DM) above inefficient infrastructure expansion remains a core problem in the National Electricity Market (NEM).

TEC is concerned that the Queensland DNSPs, Energex and Ergon Energy (Ergon), have vastly underutilised the potential of DM to meet and reduce demand and have instead opted for an inefficient, peak-driven, asset-based expansion program.

The underutilisation of DM is both inefficient and irresponsible in the context of both unnecessary electricity price increases and Australia's rising greenhouse emissions, driven largely by the supply of carbon intensive electricity. The failure to implement large-scale DM is a lost opportunity for both reduced electricity bills for consumers and the least expensive greenhouse emissions reductions – energy efficiency and demand management – and places the inappropriate burdens of climate change and increased carbon costs on present and future generations.

Despite network DM having a proven track-record of being almost four times more cost-effective than augmentation,[1] both Energex and Ergon are proposing to spend less than 2% of their capex and opex on DM. Ergon have proposed to spend just $61 million on DM – a mere 0.9% of its allocated $6.5 billion capex and opex. Energex has previously been lauded for its DM initiatives,[2] including the Cool Change air conditioner cycling trials that achieved a 17% peak demand reduction in the trial community.[3]

Energy Cool Change Results[4]



It is therefore incomprehensible that the regulator does not require Energex to mandate such programs across the constrained parts of Energex's network, and that Energex's DM expenditure is just 1.7% of its total capex and opex, after the AER reduced its allocation for DM initiatives by $2.2 million. Combined with the paltry $5 million the AER allocates both Energex and Ergon over the next regulatory control period ($1 million per

[1] ISF. 2008. *Win Win Win Regulating Electricity Distribution Networks for Reliability, Consumers and the Environment - Review of the NSW D-Factor and Alternative Mechanisms to Encourage Demand Management*, p. 6. Source: http://www.tec.org.au/tec/reports-and-submissions/393?task=view

[2] Mark Ludlow, Australian Financial Review. 2009. *Air-conditioners put heat on power grid*, p.10

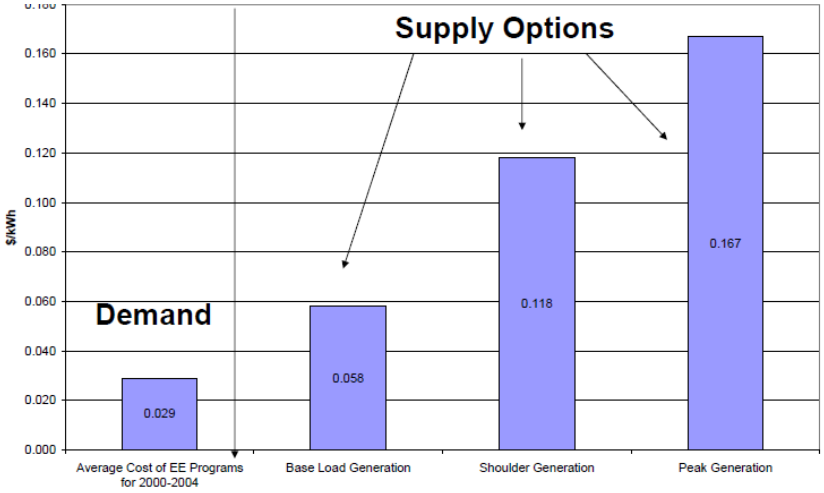
[3] http://www.energex.com.au/trial/index.html#0910

[4] Energex. 2008. *Time for a Cool Change,* p.4. *Source: http://www.energex.com.au/trial/pdf/8159_cool_change_results_report_summer_2008.pdf*

network per year), these sums clearly illustrate a flippant dismissal of DM by the AER and the Queensland DNSPs.

It is the responsibility of the Australian Energy Regulator (AER), acting in the long term interests of consumers, to ensure that the most cost-effective solution to meeting demand growth is selected by the networks. DM is by far the most cost-effective approach, despite its under-use by the networks. This has been demonstrated repeatedly in jurisdictions around the world as well as in DM undertaken in Australia to date.[5] The table below indicates that the demand reduction programs are at least twice as effective as supply options (including the costs of generation) in California, even after 30 years of an aggressive energy savings agenda.

Comparison of EE Program Costs to Supply Generation Costs[6]



DM's cost-effectiveness is further enhanced when compared to the carbon costs payable by consumers that will continue to rise, particularly after the introduction of a carbon price in Australia.

The historic underutilisation of DM and the current supply-heavy proposals give weight to the case for sweeping reforms to regulation to change network culture and dramatically increase the amount of DM being undertaken. TEC believes the AER should require networks to implement DM as a first choice over network augmentation where equal to or more cost effective than building new infrastructure. This would require an overhaul of the current supply biased planning system for networks, which allows DM to be dismissed at a very early stage. Failing such an overhaul, TEC recommends that the AER or individual jurisdictions implement mandatory peak demand management for distribution networks.

Yours faithfully,

Jeff Angel
Executive Director

[5] ISF, ibid.

[6] Cynthia Rogers, Mike Messenger, Sylvia Bender – California Energy Commission. 2005. *Staff Paper – Funding and Energy Savings From Investor-Owned Utility Energy Efficiency Programs in California for Program Years 2000 Through 2004,* p.11. *Source: http://www.energy.ca.gov/2005publications/CEC-400-2005-042/CEC-400-2005-042-REV.PDF*